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PUBLIC UTILITY COMMISSION
FILING CLERK

February 26, 2021

Public Utility Commission of Texas
Filed via Interchange

Dear Commissioners,

Given the extraordinary circumstances of last week and the increasing amounts of information you are likely receiving, I want to provide you a view from AP Gas & Electric (TX), LLC "APG&E". While we are still compiling data for February, based on all available information, we expect to suffer no financial losses from the impacts of the extreme winter weather on the ERCOT grid. We serve over 225,000 RCE's across six states. More than half our RCE's are in Texas, where we have served both residential and commercial customers since 2004.

We manage our business as 3 equally critical disciplines (Sales, Operations, and Risk Management). Our disciplined approach to Risk Management forces us to prepare for extreme events. We have heavily invested in weather forecasting, load forecasting, risk management training/certifications, risk management systems, and many other tools to protect both our customers and our business from price shocks, such as those experienced last week. We have some thoughts and ideas on how to change the future:

In defense of deregulation...

Deregulation of the retail electricity market is not the problem. Among LSE's you will find financial losses among both regulated and deregulated providers. The difference should be that in the deregulated market, the LSE's losses should be borne by investors, whereas, in the regulated market, it is the individual Texas consumers that will pay for those losses.

Real-Time Index products for residential customers are a bad idea...

While the headlines have been about skyrocketing prices impacting residential customers, we estimate this to be only 0.3% of Texas households. And that 0.3% actively made the choice to be exposed to the real time index price, which was known to be capable of hitting \$9,000/MWh. While I feel sympathy for these customers, they all had the choice to pick a fixed price product from numerous retail suppliers and chose not to. They took a risk to try and save money. That risk did not pay off in this instance, and the people of Texas that chose a fixed price product should not have to subsidize or bail-out the customers that chose a real time index. We fully support the assistance to those devastated by the real time price, but it should not come from public funds, it should come from the principals of the companies involved or from private funds.

\$9,000 prices caps in ERCOT are not providing a benefit...

APG&E has already made decisions and significant financial commitments to protect our customers from possible further \$9,000 price spikes in 2021, 2022, 2023, and 2024. However, we would support the lowering of the prices caps in the future. The price cap at \$9,000 is too extreme and is not providing a benefit to Texas consumers.

Capacity Markets are not the answer...

98% of APG&E's employees and the majority of our owners live in ERCOT. Every one of us felt this crisis deeply and personally in our homes and in our communities. We can understand the talk about capacity markets, but they are

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not the solution. Requiring weatherization of the ERCOT generation fleet will solve problems. Implementing a capacity market in ERCOT will create problems. Capacity markets are ripe for manipulation and will impose significant incremental costs on the people of Texas. They will do little to help with reliability that requiring weatherization could not do and will provide fodder for more gimmicky pricing offered to Texas consumers. Most importantly, capacity markets are wholly inconsistent with the future electricity grid, which will be composed of numerous distributed energy resources that may change locations (e.g. EVs) and both push to and pull from the grid. I fear adopting a capacity market will damage the Texas economy for decades to come. There are better solutions.

APG&E proposes a rolling 3 year forward Ancillary Services market administered by ERCOT...

APG&E proposes the development of a rolling 3 year forward Ancillary Services market for the current 4 Market-Based Ancillary Services. Currently, ERCOT runs only a Day-Ahead market for these services that are critical for the stability of the grid; we suggest letting the market agree on their value 3 years in advance instead of waiting until the day before they are needed. This auction would be similar in frequency and tenor to the current 3 year forward CRR market that ERCOT already administers. Allowing LSE's and generators (including load shed, energy storage, etc.) to agree and commit to the value of the marginal unit of generation availability in a liquid, visible market for the next 3 years would provide LSE's the opportunity to manage a significant risk 3 years in advance. It will also provide generators and developers a better view of the value of generation availability and allow them to secure a forward income stream to support new projects that make the ERCOT grid more reliable.

Given that this forward generation availability market would be administered by ERCOT, the PUCT could have visibility into the amount of forward reserve hedging that each LSE is undertaking. With this data, the PUCT could set a sliding scale for incremental LSE collateral posting requirements that reflect the default risk the LSE poses to the market based on the % of forward reserves they are hedging. In this manner, you will be sending the proper signal to the LSE market of the cost of not being hedged, and ERCOT will have the necessary collateral in case they default.

If we can be of service to you...

We have seen some disturbing comments from REPs about passing last week's costs through to their fixed price customers. Please know we stand ready to help any government official working to protect the rights of all deregulated retail electricity customers on a fixed price product. APG&E customers on a fixed rate energy plan or a variable (month-to-month) fixed rate plan will not see any increase in their rate due to the impacts of last week on the market.

Sincerely,

Jay Harpole
CEO
AP Gas & Electric (TX), LLC "APG&E"